

**COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT THERON
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**M. GREEN AND COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS**

COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
FOR THE FISCAL YEAR ENDED JUNE 30, 2007
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Board of Supervisors
County of Tulare
Visalia, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the Treasurer's Investment Pool of the County of Tulare (the County), as of and for the year ended June 30, 2007, which collectively comprise the Pool's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Treasurer's Investment Pool of the County as of June 30, 2007, and results of its investment activity thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2007, on our consideration of the County of Tulare Treasurer's Investment Pool's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

M. Green and Company LLP

November 15, 2007, except for Participant Deposits and Withdrawals, as to which the date is February 28, 2008
Visalia, California

*Dinuba
Hanford
Tulare
Visalia*

BASIC FINANCIAL STATEMENTS

COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS:

Cash on hand and bank deposits (Note 2)	\$ 11,664,541
Interest receivable	6,259,980
Investments (Note 3)	<u>731,178,945</u>
Total assets	<u>\$ 749,103,466</u>

LIABILITIES AND NET ASSETS:

Liabilities:

Due to others	<u>\$ 386,327</u>
Total liabilities	<u>386,327</u>

Net Assets:

Held in trust for treasury pool participants	<u>748,717,139</u>
Total net assets	<u>\$ 748,717,139</u>

The notes to the basic financial statements are an integral part of this statement.

COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
STATEMENT OF CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

Additions:

Participants' deposits		\$ 5,714,827,060
Investment income (Note 4):		
Interest and dividends	\$ 31,138,051	
Loss on sale of investments	(1,140,583)	
Net increase in fair market value	<u>3,146,605</u>	
Total investment income earned		<u>33,144,073</u>
Total additions		<u>5,747,971,133</u>

Deductions:

Participants' withdrawals (Note 5)	5,628,232,150
Income apportioned to participants	29,036,998
Operating expenditures	<u>899,810</u>
Total deductions	<u>5,658,168,958</u>
Increase in net assets	<u>89,802,175</u>
Beginning net assets held in trust for pool participants	658,849,893
Prior period adjustment (Note 7)	<u>65,071</u>
Beginning net assets held in trust for pool participants, as restated	<u>658,914,964</u>
Ending net assets held in trust for pool participants	<u>\$ 748,717,139</u>

The notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

**COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

As provided by Government Code Section 53600, the cash balances of substantially all of the County of Tulare's (the County) funds as well as those of participating schools and agencies are pooled and invested by the County Treasurer for the purpose of increasing earnings through investment activities. The Treasurer's Investment Pool (the Pool) is managed by the County Treasurer and is not registered with the Securities and Exchange Commission. Additionally, there is an Oversight Committee comprised of Tulare County officials, representatives from various pool participants, and members of the public, whose function is to monitor compliance with the County's Investment Policy. The Treasurer also reports on a monthly basis to the Board of Supervisors.

B. Reporting Method

The financial statements are prepared on the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The Treasurer's Investment Pool follows the accounting principles and reporting guidelines as set forth by the Governmental Accounting Standards Board (GASB).

C. Investment Valuation

Treasury Pool Investments are accounted for in accordance with the provisions of GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which requires governmental entities to report certain investments at fair market value in the statement of net assets and recognize the corresponding change in fair market value of investments in the year in which the change occurred. The fair market value of pooled investments is determined monthly and is based upon valuation provided by the Investment Pool's safekeeping agent.

D. Investment Income and Apportionment

The County Treasurer calculates and records all interest earned, received, and accrued for the Treasurer's Investment Pool on a daily basis. Interest earned on the pooled investments is apportioned quarterly based on the average daily balance of each pool participant. It is the County's policy to charge interest to a participant whose average daily equity is negative.

NOTE 2 – CASH DEPOSITS

As of June 30 2007, the Treasurer's Investment Pool's bank deposits had a carrying amount of \$11,664,541 including amounts in financial institutions totaling \$4,924,043. Of the balances in the financial institutions, \$100,000 was covered by Federal Depository Insurance (FDIC). The remaining \$4,824,043 was collateralized with pooled securities held by the financial institutions' trust department or their agent and is considered to be held in the County's name.

NOTE 3 – INVESTMENTS

The Pool's cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in the order of priority: preservation of capital; liquidity; and yield. The County's Investment Policy, in compliance with California Government Code Section 53635, authorizes the Treasurer to invest in the following:

- (A) Bonds issued by the County of Tulare
- (B) Obligations of the U.S. Treasury
- (C) Obligations of the State of California

**COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

- (C) Obligations of the State of California
- (D) Obligations of Federal Agencies or U.S. Government Sponsored Enterprises
- (E) Bankers Acceptances eligible for purchase by the Federal Reserve System
- (F) Commercial Paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record
- (G) Negotiable Certificates of Deposit
- (H) Medium Term Corporate Notes rated "A" or better
- (I) Mutual Funds
- (J) Repurchase and Reverse Repurchase Agreements
- (K) Local Agency Investment Fund (LAIF)

Investment Classification by Risk

Custodial credit risk: For an investment, this risk is the risk that, in the event of failure of the counterparty, the County will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Treasury has limited its custodial credit risk on investments by having all investments in the name of the County. In accordance with GASB Statement 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*, the County's investments have been classified into the following three categories of custodial credit risk:

- (1) Insured or registered, or securities held by the County or its agent in the County's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the County's name.
- (3) Uninsured and unregistered with securities held by the counterparty, or by the counterparty's trust department or agent, but not in the County's name.

As of June 30, 2007, all categorized investments were category (1), with the exception of the \$214,000,000 repurchase agreement, which is a category (2) investment.

Interest rate risk – This is the risk that fluctuations in interest rate will adversely affect the fair value of an investment. The Treasurer mitigates this risk by investing in longer-term securities only with funds that are not needed for current cash flow purposes and generally holding these securities to maturity.

Credit risk and concentration of credit risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment with a single issuer. The County Treasurer mitigates these risks by holding a diversified portfolio of high quality investments and limits the percentage of the total investments to the type of investment and to any one issuer by type of allocable investment instrument. State law also limits investments in commercial paper and corporate bonds to the two top ratings issued by nationally recognized statistical rating organizations (NRSROs). The NRSRO's used by the County are listed in the County's investment policy and are Standard and Poor's and Moody. As of June 30, 2007, the County's investment in corporate bonds was rated AA by a NRSRO, commercial paper was rated F by Fitch, P1 by Moody's, or A1 by Standard and Poor's. Securities that are fully guaranteed as to payment by an agency, or government sponsored enterprise of the US Government were rated AAA by a NRSRO.

**COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The Pool's investments as of June 30, 2007 are as follows:

	Carrying Value	Fair Value	Weighted Average Maturity in Days	Stated Interest Rate	Maturity Range
US Treasury obligations	\$ 92,079,267	\$ 91,280,788	933	3.00% - 6.50%	11/15/07 - 4/30/12
Federal agency obligations	257,527,836	254,708,054	792	3.00% - 7.25%	7/15/06 - 10/5/12
Municipal obligations	2,609,718	2,579,846	1141	4.51%	8/15/2010
Corporate bonds & MTN's	119,117,900	117,973,569	615	3.38% - 7.80%	1/1/08 - 1/15/12
Repurchase agreements	214,000,000	214,000,000	2	5.26%	7/3/06
Sub-total investments	685,334,721	680,542,257			
Other investments:					
Money market fund	30,645,788	30,645,788			
Investment in California Local Agency Investment Fund (LAIF)	20,000,000	19,990,900			
Total investments	<u>\$ 735,980,509</u>	<u>\$ 731,178,945</u>			

Investments in the Money Market Mutual Funds and LAIF Managed Pool are not categorized, in accordance with GASB No. 3, because they are not evidenced by securities that exist in physical or book entry form.

The Pool held investments in excess of 5% of the total yearend investments for the following issuers:

Issuer	Market Value	Percentage
Federal Home Loan Bank	103,829,823	14.2%
Federal National Mortgage Corporation	66,395,096	9.1%
Federal National Mortgage Association	78,175,418	10.7%
Morgan Stanley Dean Witter	216,446,575	29.6%
US Treasury Note	91,280,788	12.5%

Repurchase Agreements

Repurchase agreements are contracts in which a broker/dealer sells securities to the Investment Pool with an agreement to repurchase those securities for a fixed price at an agreed-upon date. The County's Investment Policy requires that the market value of the securities underlying the repurchase agreements exceed the amount of cash provided.

California Local Agency Investment Fund

The State Treasurer's Local Agency Investment Fund (LAIF) is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without penalty or loss of interest. The value of the Pool's shares in LAIF that may be withdrawn is determined on an amortized cost basis, which may be different from the fair value of the County's position in the pool. Participation in LAIF is voluntary.

As of June 30, 2007, the Pool's investment in LAIF at fair market value is \$19,990,900. The total amount recorded by all public agencies in LAIF at that date is \$19,736,253. Of that amount, 96.5% is invested in non-derivative financial products and 3.5% in structured notes and asset-backed securities.

**COUNTY OF TULARE
TREASURER'S INVESTMENT POOL
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

NOTE 4 – TREASURY POOL INCOME

The fair market value fluctuates with interest rates and increasing rates could cause the value to decline below original cost. County management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the County from having to sell investments below original cost for that purpose.

As of June 30, 2007, the investment income is comprised of the following:

Interest and dividends	\$ 31,138,051
Loss on sale of investments	(1,140,583)
Net increase in fair market value	3,146,605
Operating expenditures	<u>(899,810)</u>
Total treasury pool income	<u>\$ 32,244,263</u>

The net increase in fair market value loss and gain on sale of investments during the fiscal year 2006 – 2007 was \$2,006,023. This amount takes into account all changes, including the net loss on sale of investments of \$1,140,583 that occurred during the year. The fair market value loss on investments held as of June 30, 2007 was \$4,801,564.

NOTE 5 – INCOME APPORTIONMENT AND PARTICIPANTS' WITHDRAWALS

The County Treasurer calculates and records all interest earned, received, and accrued for the Pool on a daily basis. The apportionment of investment earnings to the various funds participating in the Investment Pool is done at the end of each calendar quarter pursuant to Government Code Section 53647.

The apportioned amount is computed as follows:

$$\text{Participating Share of Pool Income} = \frac{(\text{Fund's Avg Daily Equity} \times \text{Pool Total Income})}{\text{Total Pool Average Daily Equity}}$$

The value of the participants' share in the pool that may be withdrawn is determined on an amortized cost basis, which may be different from the fair value of the participants' position in the Pool.

NOTE 6 – INTERFUND BALANCE

Due to other County funds represents current outstanding balances between funds at the end of the fiscal reporting period. The County's computerized general ledger only allows for the transfer of cash between funds until mid-July following the end of the fiscal year. Therefore, the recording of interfund activity, which occurred during the fiscal year, but which is entered to the system after mid-July, results in an interfund payable. The balance due to other funds at June 30, 2007 was \$386,327.

NOTE 7 – PRIOR PERIOD ADJUSTMENT

During the current year's review of interest receivable, it was determined that the prior year purchase interest of \$182,044 was thought to be received, and therefore not included as interest receivable at the end of the previous fiscal year. Due to others in the amount of \$116,973 was also not included. Upon further review, it was determined that the purchase interest had not been received and as a result, an adjustment was made to beginning net assets to reflect the receivable and liability in the proper period.

OTHER INDEPENDENT AUDITORS' REPORTS



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Supervisors
County of Tulare
Visalia, California

We have audited the financial statements of the Treasurer's Investment Pool of the County of Tulare (the County) as of and for the year ended June 30, 2007, and have issued our report thereon dated November 15, 2007, except for Participant Deposits and Withdrawals, as to which the date is February 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the County's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the County, in a separate letter dated November 15, 2007.

This report is intended solely for the information and use of the Board of Supervisors, Treasury Oversight Committee, management, and others within the administration of the County of Tulare Treasurer's Investment Pool and is not intended to be and should not be used by anyone other than these specified parties.

November 15, 2007
Visalia, California

M. Green and Company LLP